NOV 23 1949

The Mortgage Banker

DECEMBER
1949

>> *Housing for minority groups is on the march as never before, as FHA Commissioner tells in his article in this issue (page 7). Top, a 200 unit project in Clearwater, Fla., with $8 to $12 weekly rentals; bottom, another in Gary, Ind. where there is a long waiting list.*

In this Issue FRANKLIN RICHARDS TELLS FHA VIEW OF OUR MINORITY HOUSING PROBLEM ★ CLAUDE BENNER TELLS WHY INTEREST RATES WILL NOT RISE

MBA CALENDAR

January 31-February 1 and 2 NEW YORK, Fifth annual Senior Executives Course sponsored in cooperation with New York University Graduate School of Business Administration.

February 23-24 CHICAGO, Mid-Winter Mortgage Conference, Drake Hotel.

June 19-23 CHICAGO, Third annual Mortgage Banking Seminar held in cooperation with Northwestern University.

September 27-29 DETROIT, 37th annual Convention and Exhibit of Building, Industry and Services, Statler and Book-Cadillac Hotels.

VA WANTS TO KNOW HOW MANY BOOKS YOU HAVE

Earlier this year when MBA distributed the VA Lenders Handbook there was a postal card attached which it was intended the member should fill out and send to his Loan Guaranty Officer as an indication of how many copies of the Handbook he had received. Purpose of this was that copies of further changes in VA regulations and procedure would be sent to him as they occur.

The VA advises that only a minority of lenders have complied with this request. Result has been that many who have these Lenders Handbooks have not been kept up to date. If you still have this postal card, you should fill it out and mail at once. If it has been lost you should advise your nearest Loan Guaranty Officer as to how many Lenders Handbooks you have so the VA can send you that many copies of changes that have occurred. And if you don't have the Handbook, you should request copies.

The Mortgage Banker

PUBLISHED MONTHLY BY THE MORTGAGE BANKERS ASSOCIATION OF AMERICA

Executive and Editorial Office
111 West Washington Street, Chicago 2

Washington Office:
1001—15th St., N.W., Washington 5, D. C.

THE MORTGAGE BANKER is distributed monthly to members of the Mortgage Bankers Association of America. Publications may reproduce material appearing in the magazine only by permission of the Association. Opinions expressed are those of the authors or the persons quoted and are not necessarily those of the Association. Advertising rates on request. Subscriptions: Of the Limited Regular and Associate dues, $4.00 is for a year's subscription to THE MORTGAGE BANKER, the official monthly publication of the Association. Entered as second class matter at the post office at Chicago, Illinois, under the Act of March 3, 1879.

Volume 10 **DECEMBER, 1949** **Number 3**

Contents

Why You Can Expect No Further Rise in Interest Rates Now

By CLAUDE L. BENNER

A YEAR ago many thought that, at last, the era of cheap money had come to an end. It was confifidently expected that an upward movement in interest rates had begun which might continue for a decade or more. Prices had been increasing rapidly since war's end. Inflation was rampant. Throughout 1947 and 1948 current investment had been proceeding at a rate in excess of current savings; bank credit was being substituted for savings on a large scale. Institutions were selling their governments to reinvest their proceeds in higher interest yielding assets. The federal reserve banks, in order to keep government bond prices from going below par, had been compelled to support the market to the extent of about $12 billions. The general level of interest rates on all forms of debt from one year certificates to long term bonds and real estate mortgages had been moving up; and the federal reserve, in spite of its bond support program, gave some evidence of being in sympathy with this upward movement.


Claude L. Benner

>> BIG CHANGE: Today this picture seems completely changed. Nearly all the rise in interest rates that took place in 1947-48 has been wiped out. The upward movement of prices has stopped. Reserve banks are no longer compelled to support the government bond market, have actually reduced their holdings and are even refinancing maturing obligations at lower interest rates.

At the moment, the danger of inflation seems a thing of the past. The Federal Reserve Board which only a few months ago was asking for additional power to increase bank reserves now has, of its own volition, decreased them. Although the yields on governments have not as yet gone as low as they were in 1946, the trend has been downward all year.

The following questions naturally arise:

>> What has caused this sudden change in the money market?

>> Is it likely to be permanent? Are we about to enter another era of declining rates?

>> Or is the change merely a brief interlude in the long upward trend that was so confidently expected a year ago?

The interest rate today of course is not the result of supply and demand working in a free money market. Our monetary authorities know how to manipulate our banking system in ways never dreamed of thirty years ago. Central bank action can make loanable funds cheap and materially increase the supply of money with the public hardly becoming aware of it.

>> CONTROLS A-PLENTY: It is probably no exaggeration to say that never in our country's history—certainly never in peacetime—has the money market been subject to so many arbitrary controls as in the recent past. There can be no doubt about our banking authorities' abili'y

One of the most significant recent developments in the mortgage industry is the change which has occurred in the money market. Few would have predicted a year ago that present-day conditions would materialize as they have. Only yesterday, it seems, the 4 per cent loan was a weak contender indeed for investment favor. Today it is a good deal more than that.

What has happened and what has caused this change? Where is it leading and what is the outlook, both for the short term and long term? Mr. Benner here reviews the background of recent federal fiscal policy and comes up with the conclusion that we certainly cannot logically expect higher interest rates and might even be confronted with a lower level than exists at the moment. But the long term trend is toward higher rates, he believes, and gives you his reasoning back of that conclusion.

Mr. Benner is president of the Continental American Life Insurance Company of Wilmington and a popular and familiar figure at MBA meetings for many years.

to increase the amount of loanable funds, reduce interest rates and increase the money supply. The federal reserve and the treasury have all the powers they need—make no mistake about that.

Last year, on the surface, it appeared as though our monetary authorities did not know exactly just what they wanted to do—increase interest rates or lower them. It is possible, of course, that there might not have been complete unanimity of opinion among the agencies as to a proper action to follow. We know from statements of the board of governors of the Federal Reserve System, that it wanted to restrict the excessive expansion of bank credit ever since the latter part of 1946 and instituted various steps toward that end. But when it became apparent late in 1947 that such steps would lead to a rise in interest rates which would cause government bonds to decline in price, our monetary authorities became frightened at the prospect; and, by their policy of supporting government bond prices, more or less nullified the restrictive effects of the actions which they had previously taken.

Since last June 28, however, when the Federal Reserve Open Market Committee, after consultation with the treasury, announced that there was going to be a change in the credit policy, there has been no doubt toward what goal they were working. It was *cheaper money*.

The present Administration is determined that the money market will be controlled and managed during the days ahead. It will not be a free market. Interest rates are not determined by supply and demand. This is the fact whether it is the rate on long term bonds or on real estate mortgages. The agency controlling the rate on bonds is the federal reserve banks. In the face of rising prices, last year these institutions purchased nearly $12 billions of governments in order to keep their prices from going below par in spite of the fact that such action was definitely inflationary.

» MORTGAGE FOLLY: As for mortgages, the level of interest rates has been more or less arbitrarily established by the VA and FHA. During the recent past, when there has been little or no market for 4 per cent VA loans, instead of increasing this rate to 4½ per cent, which would have made an ample private market for them, the government through an RFC subsidiary has furnished the funds for these loans. Last year it purchased over $1 billion of them; and since July 1st of this year over $250 million has been used for this purpose. Here is one of the most flagrant examples of the government's pressure to keep interest rates lower than a free competitive money market would make them.

SHORT TERM VIEW

"Any material change in interest rates on the upside is very unlikely. Do not plan on it. If the business pattern, in the months ahead, is one of continuing readjustment downward, if the total volume of private construction declines as now seems likely and if inventories do not increase and there is some slackening in the overall rate of business activity, then interest rates will tend to move downward."

There are only two fundamental questions on interest rates today about which there can be much difference of opinion:

» First, why it is reasonable to expect that the government may want even lower interest rates than those now prevailing.

» Second, what are the limits to the government's control of the interest rate.

In other words, can it get what it wants?

Speaking bluntly, there are two reasons why I think the government may want even lower interest rates:

» First, because they think lower rates will stimulate business activity;

» Second, because the government is now running a deficit and lower interest rates will make it easier and cheaper to finance that deficit.

Probably when the Federal Reserve Open Market Committee made its first announcement on June 28 last of a change in credit policy, it had in mind that perhaps cheaper money might act as a business stimulant. A business recession had begun in early summer; bank loans had begun to decline. It was admitted that the Treasury was going to run a deficit somewhere between $4 and $5 billions. This money would have to be borrowed.

Later, to make money more readily available, although there was no credit stringency, the Federal Reserve Board ordered further reductions in reserve requirements that released about $1.8 billions of bank funds for lending or investment.

The Board's action must have been motivated, according to its own statement, because it thought that the business situation demanded cheaper credit. There was no credit stringency in the country at the time and, as there was no immediate increase in the demand for loans, there was nothing for the banks to do with the increase in loanable funds but to put them in government bonds. This resulted in an increase in the price of government securities and they went up almost immediately after the decrease in bank reserves. Likewise, the price of corporate and municipal bonds also rose and new issues of both classes found a ready market during mid-summer at decreasing interest rates.

» CHEAPER MONEY: Whatever may have been the motive of our banking authorities for increasing the amount of loanable funds in the market last summer, the most noticeable effect to date has been a reduction in the interest rate on high grade corporate and government bonds. Regardless of how this affects the investor, I suppose it is too much to expect the treasury to be dissatisfied inasmuch as this movement has made it easier and cheaper to finance the current deficit.

We can take it for granted without much chance of being wrong that the government will want low interest rates both because it thinks such rates tend to stimulate business activity and also because it makes it easier and cheaper to finance the deficit.

Now about the *ability* of the government to control the interest rate. Stripped to its barest essentials, during the past year the only way the government can control the interest rate and keep it from going up further than it desires, is to decide what rates it wants to support on the vari-

ous issues of its bonds—and then have the federal reserve banks buy as many as may happen to be offered to it at this price.

Such purchases by the federal reserve banks tend to increase the money supply of the nation. Other things being equal, an increase in money supply tends to make prices go up. It can be definitely and categorically stated that the limits to which the government can control interest rates will depend upon the degree to which it is willing to increase the money supply of the nation and, consequently, endanger the price level. In other words, the danger of inflation is what the government runs when it supports the bond market at an interest rate lower than that which would be established by a free market.

If we feel that there is any appreciable danger that prices will go up again and the country may have further inflation, then I believe the public would not countenance central bank activities during the coming year. The harm that would result from further inflation is infinitely worse than any harm that might flow from higher interest rates.

But if we believe that the outlook for prices is downward, that the height of the business boom has been passed and that the investment demand will decline from present levels, then it seems inevitable that the government cannot only keep the present structure of interest rates intact but, if it desires, can even force them lower.

It is doubtful if there is any one single economic factor which exercises a greater control over our whole activity than the money supply. The overall objective of any intelligent monetary policy should be to control the money supply in such a way as to make it neither abundant nor scarce. Under conditions of full employment and scarce raw materials, such as have existed during the last three years, total production could be increased slowly, probably at a rate no higher than 2 or 3 per cent annually. The federal reserve index of physical production for the last two years seems to show this. If within such physical limitations, the supply of money is increased through substitution of bank credit for savings on such a scale as took place during the past three years, inflation is bound to result. No competent student of money, credit and prices denies it and, as a matter of fact, inflation did result and no amount of price control could have prevented it.

Bank credit was a dangerous substitute for a scarcity of capital in a period such as we went through in 1947-48. But in a period of depression when there is a large number of unemployed, when commodities are abundant and when the economy is not running at full capacity, bank credit can be substituted for savings with little danger. It tends to add to the total money supply, increases demand for goods and has a tendency, other things being equal, to step up production, increase output and not disturb prices.

LONG TERM VIEW

"The long term economic outlook, if left to work itself out, is making for higher (interest) rates. There will be a world scarcity of capital for years ahead. Social and political trends are stimulating the propensity to consume at the expense of savings. The advent of the social welfare state and the craze for pensions make this inevitable. The commitments expressed and implied of our present administration makes inflation still a long term danger."

This is the argument for deficit financing. It is a plausible argument in many ways but I fear based on specious reasoning. It overemphasizes the role that credit plays in causing the ups and downs of business activity. It assumes that business men will borrow money just because it is cheap and overlooks that the motivating force which leads to borrowing is the possibility of making a profit on the money so borrowed. It is further based upon the idea that as the supply of money is increased by government borrowing from the banking system, its velocity will not decrease. It also overlooks the many factors that are responsible for business fluctuations such as the accumulation of inventories, the wisdom of labor union policies, the impact of the tax structure, the international situation, and last but not least, the psychological changes which cause variations in the spending and saving habits of the people. Deficit financing with its additions to the money supply and lower interest rates cannot possibly counteract all these influences.

While I am one who does not think that the dangers of inflation are at all imminent right now, I do believe that there is real long term danger in materially increasing our present money supply. That supply is still excessive so far as the needs of trade and business are concerned in spite of the price rise and the increase in production which has taken place since the war. I believe the supply will continue excessive for years to come and is likely whenever conditions for a boom are favorable to be a potential danger to our price structure. It must not be forgotten that during the years 1942-45, as a result of war financing, the money supply (that is, total demand deposits adjusted plus currency in circulation outside banks) grew from $48.6 billions to $102.3 billions. Moreover, little attention was paid to the fact that in spite of the Treasury surpluses the money supply further increased over $11 billions from the close of hostilities to the close of 1947. While there was a decline during the first six months of this year, an increase began again in July at the rate of about a billion dollars a month.

The advocates of low interest rates from the inception of our cheap money policy in 1932 have always assumed that the burden of low interest rates was mainly felt by the wealthy classes and somehow or other were an aid to the poor. One of them told me in discussing this question, "The rich have the money, don't they? The poor borrow it. Is it not obvious that this reduces the burden of the poor at the expense of the rich?" Nothing could be further from the truth.

›› LONG VIEW: While for the immediate present—or as long as current business activity may recede, the outlook is for even lower interest rates—in the long run I believe that present economic and social forces, if allowed to operate without too much restriction, would make for higher interest rates. I base this opinion upon the fact that we are in a

capital-hungry world. Much of the Western World still lies in ruins and must be rebuilt if any reasonable standard of living is to be regained. The rapid advances in industrial technique during the past decade are creating a huge demand for capital. The long term problem seems to me to be a *scarcity* of savings, rising prices and inflation, rather than over-savings, abundance and deflation.

All the social and political trends today seem to be working to increase consumption at a rate faster than output can be increased. The emergence of the social welfare state, with all its manifold schemes for raising the standard of living of the masses and cutting down hours of labor—plus the threat of war calling for heavy expenditures—makes the prospect of a long-term upward movement in prices almost inevitable. In essence, labor governments, such as those in Western Europe now, are attempting to guarantee their peoples a standard of living higher than they can afford. This is the basic economic reason back of the so-called "shortage of dollars."

How is it ever going to be possible to meet these world-wide demands for higher living standards? Isn't it obvious that it can only be done by increasing the rate of investment? The world needs more capital goods, not less. Consider British industry. Practically all her factories need to be re-equipped with more modern tools of production if the standard of living for her people is to be maintained. The so-called backward nations of the world want to industrialize. The industrial revolution will again be on the march in these nations in a year or two. Isn't it obvious that all these processes are going to call for more savings rather than less; and is there much chance that the needed capital will be forthcoming from any other place than America?

And these demands are being made at a time when there is *no* surplus of capital in this country. To finance itself here, industry in 1948 retained for that purpose approximately 65 per cent of total net earnings, only paying out 35 per cent to stockholders. One cannot help but wonder what American industry would have had to pay for its capital had it paid out all its earnings to its stockholders —and then attempted to finance its expansion and re-equipment by calling on the money market for the funds.

From this angle, money was not so cheap in 1948 after all.

In a world characterized by a capital scarcity, there are only three ways that available capital can be distributed:

» By rationing. This lets the Government decide what industries are to be expanded and how much. It may not be the road to serfdom, but certainly is the road to socialism. No free enterprise system can long endure with capital distributed in this manner.

» The interest rate can be permitted to go up. This lets the market place decide who is to have the available capital and trusts the workings of the price system to determine what industries are to be expanded. It is the way of economic liberty, free enterprise and democracy.

» Control the interest rate but do not ration capital. This permits bank credit to be substituted for savings. It insures continuing inflation, rising prices and the ruination of the middle class. It is the easiest and most likely method to be followed in a country politically organized as ours.

In short, I believe that, in the long run, this country as well as the rest of the Western World, is caught in social and political circumstances that makes our most pressing long term economic problem that of maintaining a stable value for our currency.

In summary, then, any material change in interest rates on the up side is very unlikely. Do not plan on it. And there probably will be some decline in business investment in 1950.

If the business pattern in the months immediately ahead is one of continuing readjustment downward, if the total volume of private construction declines as now seems likely and if inventories do not increase and there is some slackening in the overall rate of business activity, then interest rates will tend to move downward.

And if it should come to pass that there is a really considerable volume of unemployment—and it's possible —the monetary authorities will take further positive steps to make money cheaper in the hope of stimulating private lending and investing. Those who believe in the beneficial effects of deficit financing still seem to be in power.

The outlook for the interest rate, therefore, depends upon the outlook for business and the movement of prices. If in an inflationary period such as we had in 1947-48 the then prevailing structure of interest rates could be maintained, what likelihood is there in the present situation that they will be permitted to go higher? Is it not almost a certainty that if prices continue their recent decline, if unemployment should increase and the rate of business activity slow down, interest rates would also decline?

Everyone charged with the management of life insurance companies should make no long distance plans with the expectation of higher interest rates than now prevail. Premiums, reserves and settlement options should all be based on a rate no higher than 3 per cent. (In my own Company we are using a lower rate.) In a space of seventeen years the average net rate of interest earned by life insurance companies has decreased from 5 per cent to a rate under 3 per cent. This has caused a reduction in policy dividends, an increase in premium rates, lower interest rate guarantees on settlement options, the strengthening of reserves on old policies, and, in brief, a set of decisions all of which has resulted in making insurance cost more for the premium-paying policyholder on the one hand and in giving less to the beneficiaries of the policies on the other.

In spite of this, the long term economic outlook if left to work itself out is making for higher rates. There will be a world scarcity of capital for years ahead. Social and political trends are stimulating the propensity to consume at the expense of savings. The advent of the social welfare state and the craze for pensions make this inevitable. In fact, the commitments expressed and implied of our present Administration makes inflation still the long term danger. But when inflation and rising prices come again, as come I think they will if present trends continue, it is doubtful if rising interest rates will be permitted to correct the situation. It is more than likely that at such a time another attempt will be made at price control. As someone has so aptly said, we apparently learn nothing from history except that we learn nothing from history.

THE MORTGAGE MARKET *LENDERS FORGOT*

By FRANKLIN D. RICHARDS
Commissioner
Federal Housing Administration

IN A competitive field such as mortgage lending it is surprising that the opportunities presented by minority group housing have so long been overlooked.

Whatever the reasons may be, the fact remains that a large untapped market awaits the mortgage lender and builder who is ready to provide housing for this vital segment of our population.

F. D. Richards

The most striking evidence of the urgent need for a greatly increased supply of housing for members of minority groups is presented by the following Census data:

» The non-white population of the country increased 12 per cent from 1940 to 1947.

» The number of housing units they occupied increased less than 7 per cent.

» In contrast, the white population increased 7.5 per cent and their housing expanded 12.5 per cent.

» Negroes are moving from farm to urban areas—3 million migrated during 1940-47.

» The proportion of substandard housing units occupied by non-whites is about six times as high as that for whites.

» The economic status of the non-white population has improved greatly in the last decade—it is estimated that their earnings doubled.

In the light of the foregoing facts, it is evident that a considerable market exists for minority group housing within the reach of private industry. This conclusion is one that has already been tested. There are many examples of FHA housing projects for minority groups scattered throughout the country—and the mortgage loans on several of these have been made by members of the Mortgage Bankers Association of America.

Some typical FHA minority group housing projects are examined here to illustrate the progress being made:

» *Greenwood Apartments, Clearwater, Florida:* On the outer edge of a Negro area in Clearwater, which contains many crowded shacks, fire hazards, and unsanitary facilities, is a new project, Greenwood Apartments. It covers an entire city block. There are 25 two-story buildings that contain 200 dwelling units renting for $8 to $12 a week. (A two-room shack in the crowded neighboring area rents for $6 a week.) Each unit consists of living room, dining room, kitchen, bath and two bedrooms. The operator of the project pays the water bill and garbage tax. As a result of this project several minority group housing developments are getting under way in Florida, at Jacksonville, St. Petersburg and Tampa.

» *Vandalia Homes, Memphis, Tennessee*—This is a striking example of a well planned housing development in which city officials, local builders and lenders have taken such keen interest that it is reported there is real competition for minority housing loans in Memphis. Vandalia Homes has 170 units renting at $31.50 for one-bedroom apartments and $38.50 for two-bedroom accommodations. Each unit is equipped with an electrical range, refrigerator and hot water heater. The water and maintenance of grounds is included in the rent. When this project opened last June there were 900 applications on file for the 170 units. The sponsor is the husband and wife team of Mr. and Mrs. Wallace Johnson.

» *Edwards Addition, Oklahoma City, Oklahoma:* Altogether there are four separate Edwards developments, the first of which was started in 1938, and the plan has grown to encompass ultimately 728 single-family homes. The development of this project is also the product of a husband and wife team, W. J. and Frances W. Edwards. It was sponsored by Negroes, built by Negro workmen, occupied by Negro families. The houses are of brick and frame construction, each with two bedrooms, living room, dinette, kitchen and bath. There is a wide range in the selling prices—in Addition No. 1, built in 1938 and 1939, the range was $2,500 to $3,600; in Addition No. 2, constructed in 1940 and 1941, $2,750 to $3,150; and Addition No. 3, built in 1946 and 1947, has a price range of $4,750 to $7,000 with an average of $6,150. According

When FHA Commissioner Richards addressed our Convention this year, he laid special emphasis on the housing problems of the minority groups in this country, the largest single element of which is the Negro part of our population. This is the part of the market which private enterprise has neglected, he declared, and said we must find ways and means by which these groups can get more and better housing.

The Mortgage Banker asked Commissioner Richards to expand his views on the subject and he has done so in this article. He details the experience of many housing developments which have been undertaken in this field and cites the favorable experience that has resulted. The situation is getting better all the time, he reports, and in some sections of the country lenders are competing for minority group housing loans. His conclusion is that minority group loans are good loans and that "when the same standards are applied, race is not a factor in mortgage experience."

The housing at Hanford Village in Columbus, Ohio (left). This typical house has four rooms and an unfinished attic. Monthly payment is around $45 over a 25-year term. Fairview Terrace in Atlanta (right), one of several minority housing projects there.

to the last report, all mortgages in Edwards developments were in current condition and no delinquency difficulties had occurred. Addition No. 4 is now under construction. It will consist of 90 single-family houses to sell at the price range of $5,500 to $5,750.

» *Roberts Addition, Tulsa, Oklahoma:* Recognition of the ability of minority groups to pay current prices for adequate housing has led to continuing expansion in this housing field in Tulsa. One of the newer developments is a 206 single-family project in Roberts Addition. This project is advantageously located near a new high school and a new grammar school. The houses all have 5 rooms and the sales price is $6,350. The monthly payments are about $35 over a 25-year period. The lots are large in size and all the rooms have oak floors, except the kitchen and bath which have linoleum coverings.

» *Lincoln Gardens, Montclair, New Jersey:* The sponsor-builder of this garden type apartment is a Negro who knew the tremendous demand that existed for living accommodations in the higher rental range for members of minority groups. The apartments range from 3½ to 4½ room units, with a living room 12x17 feet and a typical bedroom 12x13 feet. The average rental is $70 a month. The vision of the sponsor has been proved by the success of the project.

» *Carverdale, San Bernardino, California:* The Mayor of San Bernardino helped unload the first lumber for this $2,000,000 project last July—the sponsor is southern-born, Mrs. Velma Grant—and the noted Negro architect, Paul Williams, designed the dwellings. The houses are of frame and stucco construction, built with two-bedrooms, and sell for $6,450.

» *Hanford Village, Columbus, Ohio:* A typical house consists of four rooms and an unfinished attic, capable of being finished into one or two rooms later. The sales prices range from $6,500 to $6,750. The typical FHA mortgage arrangement for one of these houses calls for a monthly payment of $43.05 over a 25-year period.

These are but a few of the minority group housing projects that have been financed by private industry in recent years under the insured mortgage plan. Reports indicate that interest in this mortgage lending field is growing and during the last few months, there have been more proposed minority group housing projects than ever before in the Administration's history. The increased interest is especially noticeable in the middle western states where several projects are in preliminary stages.

To the FHA, which has been vitally concerned for more than a decade with the provision of houses for minority groups, this development of interest, as experience has been gained, is not surprising. Directors of field offices have frequently expressed opinions based on personal knowledge, which confirm the belief that when the same standards are applied, race is not a factor in mortgage experience.

Under the insured mortgage system the same standards are applied. The FHA application forms contain no reference to race. All mortgages are subject to the same analysis of risk, which covers the borrower, the property, the neighborhood, and the mortgage pattern.

All of this adds up to the fact that minority housing is a good mortgage lending field and that emphasis should be placed on meeting the demand for housing for this segment of our population. On the basis of sound business, there is no reason why private industry should not take an active interest in this neglected area.

A survey was taken not long ago of the opinions of FHA directors as to "Negroes as Credit Risks in Home Financing." Invariably, the report came back that in credit risk there was no racial distinction. Some directors went further in expressing their wholehearted enthusiasm for minority group housing.

From Jacksonville, Florida came the following comments: "Motivation for home ownership is most pronounced among minority groups as evidenced by the extreme sacrifices made in order to acquire a home. Pride of home ownership is the equal of any racial group and this fact is well supported by the manner in which they maintain their properties."

The report from Georgia stated that Negroes had been found to be excellent credit risks in home financing as long as the individual receives a fair deal in value for his money.

In Chicago there have been a number of large housing projects for minority groups and the FHA director reported that there had been no foreclosures or defaults.

The opinion of the Los Angeles director, in whose office more than $6 million in minority housing loans has been insured since 1944, is as follows: "In summary, on the basis of contacts with lending institutions, builders and investors who have had experience with Negroes in home financing on sound economic principles, a uniformly excellent record with Negroes as credit risks has been established. In addition to favorable credit experience, these groups are enthusiastic about the way Negroes maintain and improve their properties. One of the principal developers

Statement of Policy on Minority Group Housing

FHA's own publications will soon feature some reports on the minority group housing problem and in that connection asked MBA for a statement of views. At President Deming's request, George H. Dovenmuehle drafted this statement of policy which was approved at the recent Executive Committee meeting as representative of the mortgage industry's position:

"It is the policy of the Mortgage Bankers Association of America to make loans available to all people without distinction as to race, color or creed, within the limitations of sound lending practices.

"We are fully aware of the many situations where minority groups find it difficult to obtain loans because they live in obsolete, worn-out housing or in neighborhoods which are declining rapidly or have already become slum areas; and we know that some of these minority groups have found it difficult to secure jobs which justify a long term loan.

"Therefore, we urge all of our members to take an active part in civic movements and in private enterprises which seen to improve the maintenance of dwelling units, to preserve and improve neighborhoods, to eradicate slum areas and to rebuild them with recent structures which can be rented or sold at a price which people can afford to pay. And above all, we urge our members to make loans available whenever consistent with sound lending to further such objectives."

and sales agents in the city stated in regard to Negro subdivisions: 'There are no better kept subdivisions in the city. As a group, Negroes have put in more landscaping, maintained better lawns and have improved their properties more than residents in nine-tenths of the Title VI subdivisions'."

The impression should not be gained that all problems in regard to minority group housing have been resolved. That is not true despite the progress that has been made.

A year ago there were two principal problems—financing and location. Today, financing is a much less serious problem because experience has given lenders confidence. Actually, in various parts of the country, mortgage lenders are competing for minority housing loans.

Location is, however, still a problem. Objections are frequently raised when it becomes known that a particular site is going to be developed into a minority housing subdivision.

One of the chief services FHA insuring offices have been able to render has had to do with the locating and laying out of acceptable sites. Experienced land planners employed by the FHA study the possibilities of suggested sites and frequently recommend improvements that greatly enhance their value. On several occasions, civic groups, after having become thoroughly acquainted with the proposed plan for development, have changed entirely from an attitude of opposition to one of staunch support. In this connection, it is important to secure cooperation on the part of local groups and city officials in order to carry forward a comprehensive program for minority group housing. The civic benefits to the community as a whole justify such cooperation.

Another FHA service is the availability of Negro Racial Relations Advisers, who work through our field offices and act in an advisory capacity in connection with the development of minority group housing.

Minority group housing is steadily growing in importance. More and more lenders and builders are becoming aware of the potential demand and the waiting opportunities. This long neglected field of housing seems at last on the verge of receiving the attention it deserves.

The FHA is alert to its responsibility to encourage minority group housing, and the Administration will continue to put forth every effort to be of assistance in the development of needed housing for this segment of our population.

The Mortgage Industry Is Threatened as Never Before

Socialization has gone farther in our field than most of us realize and even more serious possibilities loom ahead

By F. RAYMOND PETERSON
President
American Bankers Association

THIS nation is confronted by a paradox in housing. On one hand, there is increasing evidence that the supply is catching up with the immediate demand. The pressure of emergency buyers in the real estate market has disappeared. That is one of the main reasons for the downtrend in home prices during the past year although faster construction methods and steadier supplies of building materials have also helped reduce prices.

On the other hand, constant pressure is being put on Congress to provide more government-sponsored housing credit at lower rates for longer terms. This is regarded by some as a cure-all for the country's housing problem. Unfortunately, this policy of easy, longer term credit serves chiefly to increase the demand for housing. It tends to keep prices higher than they otherwise would be. It encourages borrowers to make long term commitments beyond their means.

» U. S. CONTROL: Government is exerting an increasingly powerful influence in the market for real estate credit. It fixes the rates and terms on many types of private and government-sponsored mortgage loans. The rates and terms it establishes are artificially low. They are determined by legislation and not in the open market for mortgage credit. In the background lies the constant threat that the government itself may make direct mortgage loans for longer terms at lower rates if private lenders do not make them.

In this growing centralized control over real estate credit lies a challenge to mortgage lenders. In the past, the flow of mortgage money has been determined by sound economic principles and practices. These are the availability of mortgage credit and the demand for housing and for mortgage credit; intelligent appraisal of the property; careful judgment as to the capacity of the borrower to repay and concern for his future financial safety, and the needs and welfare of his family and community. These lending standards have always helped develop personal and family initiative and responsibility.

Today, however, the inroads of government in the field of real estate credit threaten these established principles of mortgage lending. The credit and borrowing capacity of the government is in effect being substituted for the credit and financial capacity of individual citizens.

» HARD TO GRASP: The insidious thing about this trend is that it is hard to grasp in its true perspective. At first glance, it may appear to benefit those in need of homes. In the last analysis, it damages badly the fabric of personal responsibility and enterprise. Its final cost is a tax laid upon the economy as a whole, as well as upon individual taxpayers.

In July, Congress passed the Public Housing Act of 1949. It provides for slum clearance projects and government-sponsored construction of 810,000 units of low-cost rental housing. Under this law, short term government-sponsored loans to finance this low-rent construction are to be refunded into 40-year Public Housing Authority bonds when the housing is completed. These bonds are in effect guaranteed as to principal and interest by the government. The rental income from the housing admittedly will not cover its cost and maintenance expense. The difference will be paid by the government and can exceed $12 billion in 40 years. The subsidy will be paid eventually by the taxpayers, not by the renters.

This is socialized housing.

The bill known as the Housing Amendments of 1949 went through a stormy career during the recent session of Congress. Among other provisions, the original version provided for construction of cooperative housing projects on government-sponsored or direct loans, at 3 per cent interest for a term of 60 years. The bill provided for direct government home loans to all veterans who cannot obtain 4 per cent GI loans from private lenders. It also further liberalized the terms of GI and FHA mortgages.

The terms and provisions of this bill illustrate dramatically the con-

It is certainly no exaggeration to say that the next few months may be one of the most critical periods in the entire history of private mortgage finance because of the anticipated renewal of efforts to get the government directly into mortgage lending. Not everyone in the business fully appreciates how close the industry came to getting just that at the last session of congress. That the advocates of direct federal mortgage lending will try again there can be no doubt.

Mr. Peterson is chairman of the board of the First National Bank & Trust Company of Paterson, N. J., president of ABA and a member of MBA. Here he gives the views of a banker and how seriously he views the trends in Washington affecting mortgage lending and particularly the disastrous consequences if we have to accept direct federal lending.

Present day conditions in the money market are working out in such a way that some of the reasons why direct lending was proposed will no longer have any validity whatever. But it is no excuse for complacency on the part of private mortgage bankers. They should remember that their business is being threatened as never before and that in their own best interests at least they should bend every effort to retain the American way of life in their own industry.

stantly growing trend toward easy, government-sponsored housing credit and direct government housing loans. They also show how intense the effort has become to create housing merely by liberalizing the terms of housing credit.

Housing cannot be legislated by liberalizing credit. It must be built. Making more credit available on easier terms, only brings more buyers into the market. They bid against each other for whatever housing is available. They also acquire heavy financial burdens they must carry through the long years of their loans. If the borrowers cannot carry their loans, their fellow taxpayers must, because the government guarantees the loan.

» DIRECT LENDING: Fortunately, the provisions for direct government loans and for 60-year, 3 per cent cooperative housing credit were eliminated from the House version of this bill. However, the possibility of further liberalization of mortgage credit and direct government loans will continue to be a source of deep concern to private mortgage lenders. In future sessions of Congress, we can expect more vigorous legislative efforts in this direction.

In this trend lies a threat to the country's efforts to build adequate housing. The threat is that direct government lending competition and further government liberalization of mortgage terms tends to discourage construction of privately financed housing. This point was very effectively brought out in recent testimony before Congress by the life insurance companies.

The insurance companies told Congress that approximately $3 billion of mortgage credit was available from the companies to finance large housing projects. They pointed out, however, that the proposal for extremely liberal government-sponsored loans for housing cooperatives would confront the companies with mortgage competition they could not hope to meet. Large government-sponsored loans for a 60-year term at 3 per cent would force the insurance companies to lay aside their plans to finance the projects they were ready to undertake. The country would be deprived of $3 billion of privately financed housing construction.

» CHALLENGE TO YOU: Legislation of this type is a challenge to all mortgage lenders. The challenge is not solely that of government competition. Competition is part and parcel of the enterprise system in which we believe, and we are obliged to do our best to meet it if we can. But competition ought to be fair competition. As a direct-lending competitor, the government would have almost unlimited funds for lending as well as the power to dictate mortgage lending terms by law. This is not fair competition.

The great challenge to private lenders, however, goes even deeper than the question of meeting government competition. The challenge is essentially a test of their willingness and ability to do all they can to keep mortgage credit on a sound basis for the borrower, lender, and economy.

There is no need for further government liberalization of real estate credit. There can be no valid questioning of the ability and willingness of the banks and other lenders to provide mortgage credit in adequate amounts on reasonable terms.

Since 1945, the banks have made more than $10 billion of real estate loans. Of this total, approximately $4 billion was in loans to veterans for the purchase of homes. During the first six months of this year, the banks made more than 50,000 veterans' home loans. This means that more than 1,900 veterans received home loans from the banks every week. The banks made more than 240,000 non-veteran real estate mortgage loans during the first half of this year. This means that these borrowers obtained more than 11,000 mortgage loans from the banks every week.

The total of all mortgage credit in the United States at the beginning of this year was $52,343,000,000. Of this total, $50,492,000,000 was supplied by private mortgage credit lenders, including the banks. Government lending agencies supplied only $1,850,000,000 of direct mortgage loans. Most of their mortgage loans were on farm property. Even so, they provided only 3.5 per cent of the total mortgage credit outstanding, while the banks and other private lenders supplied 96.5 per cent of the total.

» JOB WELL DONE: These figures illustrate the extent to which the banks and other private lenders are fulfilling their responsibility to private mortgage credit. The number and dollar volume of these loans demonstrate their willingness and ability to make real estate loans. Yet coupled with this responsibility is another one. This second responsibility is threefold. It is to protect the bank depositors' funds that go into these loans, to protect over-enthusiastic home buyers from saddling themselves with too much debt on houses that may rapidly depreciate in value in future years, and to help safeguard the country against the dangers of unsound credit extension that may in some future period of recession become a paralyzing drag on its economic vitality.

We want the people of this nation to have abundant and satisfactory housing. That is the goal toward which we have been striving through the years of our mortgage lending. We know that what is good for the nation is good for banking. Sound real estate mortgage loans are the most satisfactory source of earnings for the savings accounts in banks.

We want to encourage and develop the kind of housing and home financing that will help make this country a nation of satisfied, prosperous, and self-reliant families. We do not want to see home owners tied down through many years of their lives by heavy burdens of mortgage over-indebtedness. We do not want them to live in housing that does not justify the price they paid or the burden of debt they carry. The surest way to encourage these troubles is by opening the reservoirs of direct and government-sponsored credit to all.

» WON'T WORK: We do not want to see credit of the United States used to finance the construction and maintenance cost of socialized housing. Britain's experiences in trying to achieve "the better life" through socialism are a warning to other nations. The once self-reliant, highly productive people of Britain sought security through socialism. It has not produced the better life for them. It has reduced their living standards. It has impaired their willingness and capacity to produce the things they want and need. It has undermined the virtues of self-reliance and personal responsibility that were the mainstay of Britain's strength through the long years of her history. Socialized housing in this country will not produce the better life for our own people.

THE MORTGAGE BANKER'S ROLE

in Achieving Better Low-Cost Housing

By DR. C. F. RASSWEILER
Vice President for Research and Development
Johns-Manville Corporation

THE problem of the building industry is how to provide homes at a reasonable cost which are so sound in construction that they make a good investment for the prospective owner and a good risk for the mortgage banker. At the same time, the homes must so satisfy the owner's desire for comfort and give him so much pride of ownership that he will keep on meeting the mortgage payments even when some reversal in his financial situation forces him to choose between keeping his own home or getting a new automobile.

The problem of achieving technical progress toward this objective is more complicated in the building industry than it would be, for example, in the chemical, electrical, or automotive industries.

What we ordinarily think of as the building industry really consists of two entirely different and independent industries—the building material and building erection industries—and two separate professions, the architectural and engineering professions. To further complicate the problem of achieving technical progress, there is no group of dominant commercial organizations who can control the creation of the building, as General Motors, for example, plans the complete automobile all the way from the design of the smallest part to the problems of final styling and assembly.

>> ROLE OF RESEARCH: The building materials industry has a very active and effective research program, but none of these companies is in a position to undertake broad scale research on the problems of planning and erection. There are contractors who are aggressive and intelligent, but most of the building is done by small organizations who cannot afford research and engineering staffs. The architects and engineers have helped greatly by improved design, but again, they also are not in a position to support a broad research program on the technical problems of the building as a whole.

If a community is to have better low-cost housing, some way must be found to overcome these difficulties and accelerate the adoption of the best materials and the best techniques that are being made available by research in the building materials industry and by the ingenuity and inventiveness of builders and building research institutes everywhere. The banker handling mortgage money can be of tremendous influence either in accelerating or in retarding this process, both because the types of houses built will be determined to a considerable extent by his willingness to loan mortgage money on them and partly because the local banker is one of the leaders in formulating local opinions.

Quite apart from any altruistic interest in his community's progress, the banker handling loans has a very sound commercial interest in seeing better housing techniques adopted for home construction. The soundness of his mortgage risks 5 or 10 years from now may be very materially increased if his money has been loaned on the type of construction that involves enough forward-looking, progressive methods and ideas so that the house will still be considered modern 5 or 10 years from now.

>> NEW THINGS: But better homes for a community cannot be obtained and mortgage investments protected simply by urging the adoption of new things just because they are new. There is a plethora of new ideas about how to solve the problem of providing low-cost homes. Inevitably the great majority of these ideas will prove unsound and fall by the wayside. To increase the security of mortgage investments by stimulating and supporting sound technical advances in the building field, the banker must know enough about the technical side of building to be able to distinguish sound basic trends from fads and fancies.

The solution of the building problem is not going to arrive full-blown from some secret research laboratory. If one is to recognize sound trends in new building methods, he must start by giving up the hope that the perfect house will arrive ready to be erected in place by pushing a button.

Rather, we must turn to advances such as the supplying of building materials in larger and larger units to reduce site erection costs. Outstanding advances have been made in this direction; for example, by the substitution of rock lath for old-

The demand was for a lower cost house, one that more people could afford to buy. The building industry got busy and has made remarkable progress in meeting that demand. FHA figures plainly show that an excellent record has been established in giving home buyers more value in houses at a price they can pay. It has been an achievement to which the building industry can point with considerable satisfaction — particularly so if one does not lose sight of the fact that it was done under the traditional American free enterprise system.

But there is still plenty to be done. What is research doing to provide a better living unit, where are costs being cut to build a house for less money, where are the technological advances and what's ahead in the future? The Mortgage Banker asked Dr. Rassweiler to report on the subject. He is vice president for research and development for Johns-Manville Corporation and has been prominent in the effort to see what can be done to get more and better housing at a lower cost. This article for The Mortgage Banker is directed at the role the mortgage man can play in this effort.

fashioned wood lath, in the use of 4' x 8' sheets of insulating board sheathing instead of old-style boards, by the substitution of large-size asbestos-cement sheets for brick in factory buildings, and by the development of large-size lightweight masonry units.

Another line of advance already partially exploited is in the direction of making one material do the work of two. For example, asbestos siding shingles accomplish the purpose which originally required both wood siding and paint; 4' x 8' dry boards now replace both lath and two coats of plaster on interior partitions; for large office buildings colored asbestos wall sheets both enclose space and serve as decoration.

Great progress has also been made in supplying prefabricated units which can be fitted into present site erection schemes. This has included door and window assemblies, kitchen cabinets, and other similar items.

Advances have been made in reducing the cost of maintenance, both by the development of materials which require less maintenance, such as asbestos shingles and asphalt floor tile, and by modifications in design which retard deterioration and reduce the cost of cleaning and maintenance.

Material advances have been made in design, not only through the activities of individual architects, but also by such things as the concept of modular coordination and the cooperative efforts of industry in establishing economy possibilities in the Industry-Engineered House.

Beyond this, marked innovations in assembly and erection techniques have been developed and utilized by large-scale builders in certain sections of the country.

These are all examples of progress which has been made or is under way, and they illustrate the type of advances in technology which are most likely to be important in the building industry in the next 5 to 10 years.

>> LABOR PROBLEM: Almost every approach to the problem of reducing the cost of housing must come eventually to grips with the problem of reducing the number of man hours of labor necessary to provide the building materials and complete assembly and erection. This subject has sometimes been avoided for fear that it would be interpreted as a move toward reducing the amount of work available to the building trades. However, increasing the productivity of labor and decreasing the number of man hours necessary to build any individual house will actually increase the amount of work available to the building trades because it will increase the number of houses that can be sold. It should be recognized that in normal times the prospective home owner will spend about all he can afford for his future home. The question as to whether he will buy at all depends on how much he will get for the number of hours of labor he can afford.

If the building materials manufacturer, the contractor, and the building trades cooperate in making these man hours of labor as productive as possible, then the results will be an attractive and satisfying home, the man will buy, and all will profit. If the building materials manufacturer, the contractor, and the building trades fail to cooperate, then the house will not please the prospective owner, he will stay where he is now living, and none will have work.

Helping the worker to produce better houses with a given number of hours of labor is the fundamental responsibility of the local contractor. It involves efficient planning and scheduling, utilization of new materials, new tools and machinery which will make it possible to accomplish more in a day's work, and the kind of supervision which results in greater efficiency.

>> MUCH TO BE DONE: It is in the field of actual assembly and erection that the industry is most poorly organized to develop and adopt new methods and techniques. This phase of the building industry is largely in the hands of small units who cannot afford research and engineering staffs and who are frequently so busy trying to meet this month's bills that they have little time to spend on studying the long-range problems of increasing their operating efficiency. Even the channels for supplying these local units with reliable information about the latest developments are far from adequate.

However, real advances are being made in this field and a great deal will be accomplished in the years to come. Under stimulation and with the assistance of the writer's own Company, many universities have been organizing specific engineering courses to educate engineers especially qualified to operate in the field of small home construction. Numerous building foundations have been organized to work in this field and are now developing improved small home designs and erection techniques. Many universities are developing building institutes to improve erection methods. Some are giving special long and short courses for contractors and their staffs as a means of broadly dispersing information for improving small home building.

One of the most ambitious and effective efforts in this field has been the development of the Industry-Engineered House by The Producers' Council. This project is an organized effort by the building material industry to cooperate in establishing certain basic principles of home design and erection to reduce the cost of erecting basic shelter and make possible better and more satisfactory homes. Experimental erection of houses based on these principles is demonstrating that the basic frames of the dwelling can be erected more cheaply than in the past, leaving more money available for other features of the dwelling.

Another important activity in this field is the organization of the Building Research Advisory Board by the National Research Council, which is an agency of the National Academy of Sciences. Composed of 27 outstanding technical and business men, including representatives of building material manufacturers, architects, contractors, educational institutions, and the Government, the Board will serve to stimulate and coordinate research in the building field and assist in securing prompt utilization of the results by all of the diversified interests involved. It is the first effort to draw together all of the factors interested in improved building and is an important activity that deserves widespread support.

>> PREFAB ROLE: In spite of such efforts, there are still pessimists who feel that the problem of building better homes can never be solved by increasing the productivity of labor at the building site. It is their stand that this whole problem must be by-

(Continued on back inside cover)

President's Page

On October 22nd your Executive Committee and the Chairmen of the standing committees held a most constructive all-day meeting in Chicago to discuss policy and activities of MBA for this year.

A great deal of time was spent in discussing the direct lending threat to our industry as advocated in Senator Sparkman's bill, which has been introduced in Congress and carried over to the next session.

It was the opinion and vote of your Executive Committee that it was time that MBA adopt a program of sane legislation which would do justice to the government, the lender and the borrower. With this thought in mind, there is now being arranged, under the sponsorship of the United States Chamber of Commerce, an industry-wide meeting to which will be invited all associations and groups interested in real estate financing.

The purpose will be to attempt to draft the type of legislation that will accomplish the aims and purposes outlined above and which can be sponsored by the group as private industry's answer to the federal challenge of direct loans.

We are extremely optimistic about this conference and believe that the resulting legislation can be passed in the next session. Thus, the Association's policy in this instance changes from a critical negative one on federal legislation to a more aggressive policy in the attempt to protect private industry.

The Executive Committee voted to send up to three men to Europe, their tour to include Sweden, Denmark, Holland and possibly other countries to determine the status of federally sponsored housing and other means of real estate financing so that at the proper time in our testimony before the committees in Washington we will have factual information to present in support of our position. The threat of federal interference with private industry is serious not only to our group but to all private industry; and it is time that we as individuals, as well as an Association, give serious thought to the inherent dangers of the situation. It is my hope that each member of our group will lend assistance and constructive suggestions to the program outlined by the Executive Committee.

E. R. Haley, National Membership Chairman, is getting well organized in his solicitation for new members of the highest possible quality. I bespeak the assistance of every individual member to carefully scan in his own community those mortgage lenders of good reputation and financial standing who are not now members and who should be, and ask your solicitation of these members in your community. We need this increased membership and interest in our program if we are to be effective in meeting the challenge that has been thrown to private industry.

President
Mortgage Bankers Association of America

>> Personal: A. Sproule Love, vice president, Edward K. Love Realty Company, St. Louis, represented MBA at the November meeting of the Construction and Civic Development Department Committee of the Chamber of Commerce of the United States. . . . Oliver M. Walker, president, Walker and Dunlop, Inc., Washington, D. C., was elected president of the Washington Real Estate Board at the 28th annual meeting.

J. E. Foster & Son, Inc., Ft. Worth, have opened their new home office building in Ft. Worth.

MBA TO SEND DELEGATION TO EUROPE TO STUDY HOUSING CONDITIONS THERE

In anticipation of the probable emphasis which may be given the experience of European countries in cooperative and other kinds of subsidized housing when new housing legislation is again considered in Congress next year, MBA will send a delegation of its members to Europe to make a comprehensive study of housing developments there.

The group expects to leave shortly to visit England, Sweden, Norway, Holland, France and possibly other countries as well. Their instructions are to make a complete study of European experience and cost to taxpayers and to compare conditions which motivated the housing as contrasted to conditions in this country.

Their itinerary will correspond to that of the special Senate group which was in Europe in October studying housing. It consisted of Sen. Sparkman (D. Ala), Senator Bricker (R. Ohio), Sen. Frear (R. Del.), Sen. Flanders (R. Vt.) and Sen. Cain (R. Wash.). Sen. Sparkman is the senate sponsor of the bill introduced in the last session of Congress which, for the first time, would have put the federal government directly into mortgage lending. One of the direct lending provisions would have appropriated a billion dollars for cooperative housing loans and it is this type of housing which the senate group particularly studied in the Scandinavian countries.

An announcement is expected shortly as to the personnel of the MBA delegation which will make the inspection tour.

COMMITTEE ANNOUNCES SUBJECTS FOR SEMINAR

The subject material which will be embodied in MBA's Mortgage Banking Seminar at Northwestern University in Chicago, June 19 to 23, has been selected by the Seminar section of the Education Committee and reflects a broader educational offering than in the two previous years. Some of the subjects to be covered in the five-day course will be emphasized more next year and others have been allocated a lesser amount of time.

Among the subjects on the 1950 program are History of Mortgage Lending, The Loan Application and Personal Credit Examination, Effect of Interest Rates and Security Prices on the Mortgage Market, Importance of Financial Statements, Appraising Dwellings, Appraising Apartments, Appraising Stores, Commercial and Industrial Properties, Underwriting the Mortgage Risk, Selling the Loan and the Correspondent-Investor Relationship, Construction Loans, Closing the Loan, Law for the Mortgage Banker, Procedure for Government Insured or Guaranteed Loans and the Secondary Market, Servicing the Active Loan, Servicing the Delinquent Loan, Acquiring New Mortgage and Business and Collateral Activities for the Mortgage Banker.

A good year-end reminder is that now is the time to make preliminary plans for just who from your organization will attend. Speakers are being invited and sometime after the first of the year the complete program will be ready. Look ahead now to arranging your office schedules so that you can benefit from this valuable contribution to the personnel of your company which MBA provides in this course.

RESEARCH COMMITTEE OUTLINES 1950 PLANS

MBA Research Committee has selected four projects to which it will devote its initial efforts this year with a second group to be taken up at a later time. The four include settlement of hazard insurance losses under $300, retention of hazard insurance policies, handling of tax payments and tax receipts and retention of escrow funds, Guy T. O. Hollyday, committee chairman, announced at the Executive Committee meeting. Research in these four problems appear to have the best possibilities of success at this time, Hollyday said.

In addition, the Committee may do a research project on the matter of procuring fidelity bonds for servicing agents. Others which have been suggested include payment of servicing fees on the total monthly balance rather than individual loans; combining escrow deposits; responsibility for payment of FHA mortgage insurance premiums, and the preparation of a standard servicing contract.

As to the settlement of hazard losses under $300, Ehney A. Camp, Jr., at the Mortgage Servicing Center, told how his company now permits servicing agents to endorse loss drafts of under $300 and to handle the matter without notifying the company of any of the details.

Considerable interest is developing in the trend toward retention by the

(Continued on next page)

MBA MEMBERSHIP NOW 1357, HIGHEST IN HISTORY, WITH FURTHER GAINS PLANNED

MBA's national office in Chicago will soon have a new home. On or about December 1, the Association will take new and larger quarters at its present address, the Chicago Title & Trust Building, at 111 West Washington street. Action approving the move was taken at the Executive Committee meeting in Chicago. The change is being made to secure space needed now and to provide for more personnel to be added to the Association's staff under the comprehensive expansion program now underway. The new office will have about 1700 square feet of space as against around 1300 now. Last time the Association's national headquarters were changed was in 1936 when the offices were moved from a small space in the present building to those now occupied.

In connection with the expansion move, members of the Executive Committee at their meeting were shown a tabulation which traced the growth of the Association in the past 15 years. These figures will have a news interest for most present-day members as well because probably few of them appreciate the consistent growth which their organization has enjoyed during this period.

When Secretary George H. Patterson accepted his present position in 1931, the organization had less than 200 members, no surplus, an annual budget of less than $11,000 and a staff consisting of himself and one assistant. For the next two years—in common with all associations and general business as well—the Association experienced the rigors of depression but kept operating. Services were expanded as the Association's finances would permit.

It was an important period for the organization because success or failure meant the answer as to whether the mortgage industry would continue to be represented by its own trade association.

But, as the depression lifted, recovery for MBA began as it did for the nation. The record of growth since 1934-35 is as follows:

Fiscal Year	Total Membership End of Year
1934-35	314
1935-36	363
1936-37	427
1937-38	504
1938-39	520
1939-40	568
1940-41	608
1941-42	666
1942-43	765
1943-44	869
1944-45	998
1945-46	1083
1946-47	1133
1947-48	1243
1948-49	1333

And the growth is continuing without let up. Since the close of the 1948-49 fiscal year, total membership has gone to 1357; and with the aggressive and comprehensive membership campaign starting under the supervision of E. R. Haley, membership chairman, the 1949-50 year should set another record.

New members admitted since the last report include:

ALABAMA, Attalla: First National Bank of Attalla.

ALABAMA, Birmingham: Boothby Realty Co.

ARIZONA, Phoenix: Commerce Mortgage Company.

ARKANSAS, Magnolia; James L. Lucas Corporation.

CALIFORNIA, Pasadena: Clarke Ewing & Co.

COLORADO, Denver: The D. C. Burns Realty and Trust Company.

DISTRICT OF COLUMBIA: Washington: Security Savings and Commercial Bank.

FLORIDA, St. Petersburg: Harry E. McCardell, Jr.

FLORIDA, Tampa: W. H. Toole & Sons.

ILLINOIS, Champaign: Jack W. Noel; Decatur: Johnson Loan Agency; East St. Louis: Byron and Company.

INDIANA, Indianapolis: General Mortgage Company.

LOUISIANA, Monroe: Troy & Nichols, Inc.

MASSACHUSETTS, Boston: Institution for Savings in Roxbury; Cambridge: Cambridge Savings Bank; Lynn: Lynn Five Cents Savings Bank; Springfield: Springfield Institution for Savings.

MISSISSIPPI, Jackson: Deposit Guaranty Bank & Trust Company.

NEW HAMPSHIRE, Concord: United Life & Accident Insurance Company.

NEW JERSEY, Newark; Elizabeth: R. E. Scott Mortgage Company; Newark: Capital Securities Company, Inc.

NEW MEXICO, Albuquerque: Realty Mortgage & Investment Company.

NEW YORK, Jamaica: Community Funding Corporation.

OKLAHOMA, Oklahoma City: Selected Investments Mortgage Company.

PENNSYLVANIA, Philadelphia: Land Title Bank and Trust Company.

TEXAS, Abilene: Cassle & Cassle; Dallas: Shelley Coleman; Fort Worth: Bliss Mortgage Investment Corp.

RESEARCH COMMITTEE

(Continued from page 15)

servicing agent of hazard insurance policies. When the loan is closed, the servicing agent furnishes the investor a certificate of the insurance received at the time of closing. The investor has the opportunity then to check the coverage to be sure it is in accordance with his requirements. However, the servicing agent retains the policies and, in many cases, does not even furnish the investor a certificate of renewal, it being understood that the servicing agent will be responsible for maintaining in force that amount of insurance unless specific approval is obtained from the investor to change the coverage.

Several large institutional investors have adopted this procedure and the RFC has recently issued instructions that the policies will be retained by the servicing agents.

W. A. CLARKE SUGGESTS A PRIVATE FANNY MAY

A "private Fanny May" in which lending institutions would create a secondary mortgage market to replace government credit was recommended at the meeting of the Philadelphia MBA by W. A. Clarke, MBA board member. C. Armel Nutter, MBA board member, presided.

"FNMA has met a need by making possible many home purchases that required second mortgages," Clarke said.

"But its continuance endangers the private lending system. Some serious thought should be given to setting up a private 'Fanny May' in which the lending institutions would create a secondary financing market."

★ New Ideas in SERVICING

MAYBE A LITTLE HUMOR WILL SPEED UP YOUR SLOW PAYING ACCOUNTS

By A. PRESCOTT WILLIS

AFTER some twenty years of collection experience we have read and written practically every type of collection letter known — everything from serious threats of foreclosure and heart-rending pleas for cooperation, down to the comic, "Come on now, Joe, we're not bad fellows to get along with, give us a chance and remit——."

Some of them almost brought tears to our eyes but they didn't always bring results, which brings us to the question, "What makes a good collection letter?" In the first place, every collection letter must be written to fill a particular need. The normally conscientious mortgagor who, because of some outside stress, forgets an occasional payment would receive an entirely different letter from the chronic delinquent. The first needs a gentle reminder; the second needs a shock strong enough to make him realize that he is treading on dangerous ground.

Then there is the mortgagor who, through sickness, hospitalization, loss of work, etc., has run into temporary financial difficulty. Sometimes this type of case is most difficult to handle. The man's past record is good; it is his first taste of misfortune; he realizes that it is but a temporary condition which he will be able to clear up over a few weeks or months. Through pride, embarrassment, or fear, he will not let you know of his difficulties. This man needs a letter of an entirely different type. He needs a letter of assurance; something that will help him to feel more secure in his time of trouble. A letter informing him of your willingness to cooperate, and seeking his confidence, will frequently bring him in for an interview. A payment plan can then be established and you, as servicing agent, will have an opportunity to educate him to a point where in the future you will obtain his wholehearted cooperation.

No one collection letter is adequate to fill all these needs. To attempt to cover all of these cases in one letter is a mistake. It would require a long letter, and long letters are seldom read. It is important too, that the man who has forgotten to pay does not receive the same letter which is sent to the chronic delinquent.

The answer, therefore, is a series of letters designed to cover every type of delinquency. This series should start with the gentle reminder, be followed with a plea for cooperation and a message of assurance, and end with the iron fist.

Now the one definite thing we have learned about collection letters is that none of them, no matter how carefully worded and thought out, has much lasting effect. A good letter will bring results for a month or so, after which it begins to lose its appeal. From that point on its value rapidly diminishes. A quick glance at your delinquency lists for the past year will tell you why. The majority of names appearing on your most recent list also appeared on your list for last January. Your series of letters are being constantly sent to the same people, namely, your chronic late payers. Naturally within a short period of time these people become familiar with your system. Your letters become a matter of routine and many of them are undoubtedly tossed aside without being read.

As a result we have found it necessary to constantly revise our letters. The old ones are filed away to be used again at some future date after they have been forgotten. New ideas are then put into use, which in turn are put away for something fresh and different. The great difficulty with this is that the usable words and combinations of words by which an idea can be expressed, are limited.

It was during one of these periods of change when we were struggling to think up a series of short, punch line letters, that a new idea occurred to us. Why not illustrate our letters? Letters written in a lighter vein showed better results than the usual heavy, threatening type. They also built good will. So we toyed with the idea and eventually came up with a series of illustrated punch line letters. We have endeavored to arrange them so that they will go out in a sequence.

We normally send out two official form notices of delinquency—one on the 15th and one about the 20th of the month. As a rule these notices will bring in a large proportion of the outstanding delinquencies. It is our opinion that the remaining delinquencies require special handling; and at this point we usually start sending our series letters. Therefore, this new system will not add to our servicing costs.

Here is a new feature of The Mortgage Banker, a department on servicing, a Mortgage Servicing Center such as we had at the Convention but this time in print. It is designed to tell servicing managers of new developments in servicing operations. Servicing problems are no longer back-office routines but vital income-producing factors in a mortgage business. This department, then, is a clearing house for members on servicing and the place where you will find progress reports of the Research Committee and our Research Department under Frank J. McCabe's direction. It will appear periodically, possibly every month and contributions will be most welcome.

For this initial department, here are several ideas which appear new and worth consideration. Our contributors are A. Prescott Willis, Robert B. McCall, Jr., the mortgage department of the Sun Life Assurance Company with editorial assistance and suggestions from William I. De Huszar. Mr. De Huszar is the author of the first published work on servicing, MBA's Mortgage Loan Servicing Practices, and is treasurer of Dovenmuehle, Inc., Chicago. Mr. Willis is vice president of the W. A. Clarke Mortgage Company, Philadelphia, and Mr. McCall is manager of the mortgage loan department of the Louisiana Fire Insurance Co. of Baton Rouge, La.

After these form notices have been sent out we will then, where necessary, start using our illustrated letters. *(See illustrations this page.)*

Your first reaction may be that sending a series of letters is an expensive servicing procedure. You must realize that each letter will bring in payments, so that as the series continues the number of letters sent out at each mailing will greatly decrease. In any event, the successful use of form letters is far less expensive than telephone or personal contact. If letters fail to bring results then telephone and personal contact becomes a necessity. Therefore, the development of good collection letters is essential if servicing costs are to be kept at a minimum.

Some undoubtedly may feel that this approach is undignified — too great a departure from the usual accepted methods. Others will feel that we are slightly "touched." Some will think it's a great idea. Any one of these opinions may be correct.

As we analyze the situation, however, we cannot see how the use of these letters can seriously harm our Company. The people to whom they will be sent are not the type who will be disturbed or insulted. Some will disregard them, but others will be intrigued into paying. What have we to lose?

There is only one thing at this time of which we are certain: If this type of letter proves to be a bonanza —and we sincerely hope it will—three or four months from now we'll be busy drawing a new set of pictures.

W. A. CLARKE MORTGAGE CO.

1518 Walnut Street, Philadelphia 2, Pennsylvania

October 25, 1949

IN REPLYING, PLEASE REFER TO PERSON SIGNING THIS LETTER.

Mr. Henry Smith
16 Park Avenue
Philadelphia 3, Pa.

Re: Loan # C-1234

Dear Mr. Smith:

Perhaps it was the $ 40.40 due on your mortgage.

Very truly yours

W. A. CLARKE MORTGAGE CO.

Here is the first letter reproduced in full. Note that it's short, terse, to the point. If, after sending out the two form notices, the payment due on the first of the month isn't received, the borrower gets the first letter about the 25th. (The other five letters aren't reproduced in full here, only the illustrations and text shown below.)

If the first letter doesn't do the job, out goes the second letter the second day of the second month. Copy reads: "Remember! A payment of $80.80 is now overdue in your mortgage. Let's talk it over." If that doesn't work, out goes the third letter on the 8th to 10th of the second month. Copy reads: "Your payment of $80.80 is long overdue. We have not heard from you. Think of our blood pressure and please remit."

Then, if there's no action, the fourth letter goes out the 15th to 18th of the second month. Copy reads: "November 25th is the last day for payment of the $80.80 now overdue on your mortgage." That brings it down to just before the third month's payment falls due and the borrower gets this: "Don't force us to recommend foreclosure action. Remit $80.80 by return mail." And then the last in the series of six which goes out the second day of the third month. If it fails, foreclosure action will be instituted. Copy reads: "Foreclosure action has been recommended on your property. What are your intentions?"

The Mortgage Banker will follow this campaign and, at the proper time, report on results.

2

3

4

5

6

THIS COMPANY GETS 12 POST DATED CHECKS FROM BORROWER IN ADVANCE

A NEW "cost cutting" and "work-saving" idea has been installed by Sun Life Assurance Company of Canada for their direct mortgage loan servicing accounts.

The general idea is to sell the borrower who habitually pays by check the thought that he can save postage and time by forwarding twelve post-dated checks which then are credited to his account by the cashier as the payments come due.

A self-explanatory booklet containing twelve blank checks is forwarded to the borrower for his convenience. The booklet is limited to twelve payments because it is difficult to foresee the tax reserve requirements beyond that time.

(Continued next page)

When the borrower returns the booklet to the cashier, the records are marked to the effect that certain post-dated checks are held. The checks are then filed in date order. Every morning (or during the previous afternoon) the checks for the day are withdrawn and the cashier credits the accounts and deposits the checks due. The checks show the account number which enables easy identification. A reminder slip is inserted between the last two checks. This slip, together with a new booklet, is mailed by the cashier to the borrower as soon as the last check has been withdrawn.

This plan is offered to each borrower on an optional basis. The reaction has been very favorable. The borrowers usually comment: "Why didn't you tell me about this before?"

WE SIMPLIFIED OUR RECEIPTS BY USE OF AN ADDING MACHINE FOR THE JOB

By ROBERT B. McCALL, JR.

AS A correspondent's servicing grows, he has to improve and speed up his procedure. If he doesn't do so these days, he will find he has a costly operation.

Louisiana Fire Insurance Company, in its early days, serviced each account by hand. As servicing volume grew, it became necessary to abandon the manual method and turn to a mechanical system. And what a difference it has meant!

Our company formerly used the receipt book which the borrower kept as a record of his account. Entries for each monthly payment were made with pen and ink by our cashier. It was necessary for him to make the same entries on the cash blotter; then the remittance report to the company had to be made on a typewriter.

We found that hand entries caused the borrower to stand in line and wait his turn. At times, there were as many as five people waiting to make a payment to each of the two cashiers.

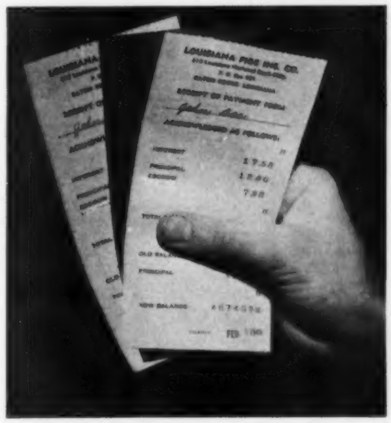
We could see the need for a mechanical bookkeeping system. One of our banks had recently installed a system of receipting deposits by pressing a button and the pre-printed receipt was then taken from the machine and given to the customer. We conceived the idea of trying to pattern a machine for use in our mortgage business that would make a receipt for the customer as simple as that of the receipt from the bank.

We hit upon the idea of adapting an adding machine for the job. We removed the adding machine tape and slipped in a piece of paper with a carbon copy and added the figures of principal, interest and escrow; by pressing the total button, we had mechanically given the total amount of the payment. We then picked up the unpaid balance from the ledger card and subtracted, by use of the subtraction key on the machine, the amount paid as principal. This gave us the new unpaid principal balance.

We liked the system so well that we had regular receipt forms in duplicate with a one-time carbon printed for use as a receipt. (*See exhibit.*) In abandoning the receipt book, we knew that we needed some type of folder for the mortgagor to keep the individual receipts in. We then had a leather folder designed for this purpose.

When the mortgagor makes his payment, the original copy of the receipt is given to him and the carbon copy retained by our office and used for posting and making up the deposit.

By this system we have reduced the work in our office by two-thirds and have speeded the time that a mortgagor remains in our office considerably. We find that where we used to



have five people in line we never have over two at any one time.

We found the reaction of mortgagors splendid. They were pleased that it was no longer necessary to bring their receipt book with them. Several remarked that it was a great change because they usually forgot the book anyway.

The nicest thing about the system is that it has cut our time by two-thirds—and our borrowers are happy.

If you have something that's new and different, give the membership the opportunity to try it. Write to *New Ideas in Servicing.*

If you want to try something new and you need data or want to learn

(Continued next page)

Other MBAs

Members of the St. Louis MBA recently made a 50-mile inspection tour of the Terminal Railway Association's facilities in St. Louis and near-by Illinois towns. Some made the trip in open flat cars equipped with benches and guides at loud speakers explained how rail traffic in the metropolitan area is handled.

Frank W. Nolan, assistant trust officer, National Bank of Commerce, was elected president of the Seattle MBA at the Association's annual meeting. Clifford C. Olson, assistant manager, Pacific First Federal Savings and Loan Association, was named vice president and Boland Wilson, treasurer, Citizens Federal Savings and Loan Association, was elected secretary and treasurer. Trustees include Don Hedlund, Caroll, Hillman & Hedlund, Inc.; James W. Rice, Northern Life Insurance Company, and Felix M. Davis, Seattle-First National Bank.

The Detroit MBA, for its November meeting, is planning an educational conference on FHA applications, mortgages and procedure. Purpose is to explain the correct procedure for facilitating the processing of applications, and the endorsing of mortgage notes for insurance by FHA. It is intended primarily for those employees who perform the detailed work in connection with FHA loans, both applications and mortgages, including stenographers, typists and clerks, and those contacting both the public and the builders, as well as the mortgage closers.

PERSONNEL

YOUNG MAN WANTED

With good experience and modest capital for stock participation to open branch mortgage company in Southeast with backing of approved mortgagee operating in three states. If you are looking for a chance to get out on your own, write Box 192, Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2, Illinois.

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912, AS AMENDED BY THE ACTS OF MARCH 3, 1933, AND JULY 2, 1946.

Of THE MORTGAGE BANKER published monthly at Chicago, Ill. for October 1, 1949.

State of Illinois, County of Cook, ss.

Before me, a notary public in and for the State and county aforesaid, personally appeared G. H. Knott, who, having been duly sworn according to law, deposes and says that he is the Editor of THE MORTGAGE BANKER and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily, weekly, semiweekly or tri-weekly newspaper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the act of August 24, 1912, as amended by the acts of March 3, 1933, and July 2, 1946 (section 537, Postal Laws and Regulations), printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are:

Publisher—Mortgage Bankers Association of America, 111 W. Washington St., Chicago 2, Ill.

Editor—G. H. Knott, 111 W. Washington St., Chicago 2, Ill.

Managing editor—None.

Business manager—None.

2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.)

Mortgage Bankers Association of America, 111 West Washington St., Chicago 2, Illinois.

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: (If there are none, so state.) None.

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the twelve months preceding the date shown above is 1650. (This information is required from daily, weekly, semiweekly, and triweekly newspapers only.)

G. H. KNOTT,
Editor.

Sworn to and subscribed before me this 27th day of September, 1949.

ALDENE L. SCHARLACH,
Notary Public.

(My commission expires November, 1952.)

---

the experience of others on a similar problem, send your problem to this department.

In addition to describing new ideas, we will see that you get an answer. We will either reproduce your letters or put you in touch with the man or organization who has the answer for you. The vast quantity of information available from the Research Committee's material will enable us to perform this service for you.

LOW COST HOUSING

(Continued from page 13)

passed by expending in factories at a centralized location most of the labor hours required for converting raw materials into finished houses — in other words, by prefabrication.

On the other hand, there are those closely acquainted with the practical problems of building who recognize that there are certain very definite advantages in expending at the job site a considerable amount of the labor involved in converting raw materials into finished housing.

The question of prefabricating housing versus site erection comes down fundamentally to a question of the intelligence, ability, and aggressiveness of prefabricators and factory labor on one side and of the local contractors and site labor on the other, in finding ways to give the customer the greatest value for his money through the intelligent utilization of new ideas and materials to increase the amount of satisfaction that can be given to the ultimate home owner for a given number of labor hours.

This is a contest in which bankers should have a particular interest, because the erection of homes is still one of the few strongholds of the small businessman and the banker might be interested in assisting him to preserve his traditional position as a user of local capital.

How can the local banker help the local builder provide better housing for his community?

>> BETTER CODES: First, there is that well publicized difficulty of building codes. Authoritative figures indicate that 50 per cent of building codes in this country are over 15 years old. No matter how intelligent a building code might have been 15 years ago, it is almost impossible to have foreseen the improvements in building practices which have taken place in the intervening years. Such a code is therefore almost certain to be a major obstacle in the way of improved practice. Not only as a civic duty but as a means of protecting mortgage investments, the banker should be interested in seeing that building codes permit his builders to give the home owners the best value for their money.

The banker can be an important factor in seeing that information about improved building techniques is sought and studied. Literature is available from The Producers' Council, from the Housing & Home Finance Agency, from many reputable building materials manufacturers, and from the various architectural publications. Many state universities are giving long and short courses in the off-building season to assist contractors in keeping up to date on new methods. As the men deciding on mortgage loans, bankers are in an excellent position to stimulate and, if necessary, bring pressure upon local contractors to make sure that they take advantage of these opportunities.

Bankers, themselves, can take advantage of some of these opportunities to learn enough about new materials and new techniques in building so that they can safely loan money on homes involving these new ideas instead of depending simply upon sticking to old traditional construction as a means of insuring the safety of their loans. The possibility might be considered of having younger staff men actually attend some of the seminars at the universities, keep acquainted with representatives of some of the big manufacturers of building materials whose reputation is so important that their advice can be accepted as reliable.

>> IT CAN BE DONE: This is no time to be pessimistic about the possibility of providing better homes at reasonable cost. The building industry is not a backward industry technically. It has a splendid past record of technical accomplishments. But none of these accomplishments are of any value unless they are used. If these new developments are to result in better housing for low income families, they must be intelligently utilized by the local builders. Bankers are in a particularly favorable position to help in seeing that this is done.